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Ruble Collapse Stokes Russian Mortgage Boom

By Howard Amos

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In the first nine months of this year about 1.4 trillion rubles ($24.3 billion) worth of new mortgages were sold.

One real estate developer and mortgage provider is eager to highlight the collapse of the Russian currency.

An advertising campaign featuring almost 200 posters and two mobile trucks organized by the Moscow-based company — Moscow Mortage Center (MITs) — includes slogans urging Russians to "save rubles correctly" alongside pictures of gleaming apartment blocks. Another slogan proclaims that unlike the currency, real estate is "immovable."

The ruble's loss of over 48 percent against the U.S. dollar since January has caused a spike in demand for mortgages as Russians look to invest their savings by purchasing property.

"The advertising campaign was designed with the country's current economic situation in

mind," according to MITs spokeswoman Olga Novitskaya.

Lending Boom

In the first nine months of this year about 1.4 trillion rubles ($24.3 billion) worth of new mortgages were sold, a 33 percent year-on-year increase, according to Central Bank data.

"The mortgage market has set its latest record," Mikhail Goldberg, head of the analytical department at the Agency for Housing Mortgage Lending, said in written comments.

As the ruble plunges, real estate is now one of the investments most attractive to Russians, alongside high-interest bank accounts and buying foreign currency.

"Everybody understands perfectly that it's better to have square meters in your hands than depreciating rubles," said Maria Litinetskaya, the head of real estate firm Metrium Group.

Before the Rush

The growth in mortgage lending comes despite the Central Bank hiking interest rates five times since January in an effort to slow inflation and halt the fall of the ruble.

The most recent increase, of one percentage point, took place Thursday as the regulator set the key interest rate at 10.5 percent.

Irina Ryapolova, a 35-year-old editor at the TASS news agency, said it was "absolutely" a good thing that she and her husband took out their seven-year, 3.9 million ruble ($65,000 at current exchange rates) mortgage to buy an apartment on the fringes of Moscow last October.

"I heard that some banks have raised their interest rates [since then]," Ryapolova said.

The couple pay interest of 11.75 percent on the loan from DeltaCredit, a subsidiary of French lender Societe Generale and one of the top three mortgage providers in Russia.

More Mortgages

The proportion of mortgage-assisted real estate purchases has grown steadily in Russia in recent years.

Between January and September a record 29.6 percent of all real estate deals involved mortgages, according figures from the Agency for Housing Mortgage Lending, a body set up in 1997 by then-President Boris Yeltsin to make housing more accessible.

Mortgages are far more common among those with a limited budget than those seeking more expensive properties, Metrium's Litinetskaya said in written comments.

Since the government handed over most state-owned apartments to their residents in the 1990s, officials have pushed for mortgage lending to grow.

Russia largest lender, Sberbank, is also the country's biggest provider of mortgages. In August, the bank launched an advertising gimmick — a free cat to new homeowners —

in an effort to boost mortgages sales.

The lowest interest rate for standard mortgages on Sberbank's website Friday was 12 percent.

Just Not in Dollars

While ruble mortgages have grown in popularity, unlucky mortgage buyers who took out loans denominated in U.S. dollars or euros have watched in horror as their repayments have skyrocketed because of the ruble's tumble.

Up to one hundred such people reportedly demonstrated near Russia's Central Bank on Friday.

"What is happening with the ruble is a catastrophe for us," said Zoya Kuleva, a participant at the rally, according to a report by financial news website Banki.ru. She added that some people's monthly repayments now exceeded their salaries.

There are currently about 117 billion rubles ($2 billion) of non-ruble mortgages being held by Russians, according to Central Bank data published Nov. 1. About 14 percent of such mortgages are overdue, compared to 0.8 percent for ruble-denominated mortgages.

Rising Rates

Experts predict the Central Bank will continue to raise interest rates in 2015, and warn the rises will eventually feed through to higher mortgage rates, curbing the current appetite for long-term loans.

"The critical threshold for mortgage rates is 14-15 percent. At that cost of credit the share of mortgage buyers will fall sharply," developer Litinetskaya said.

The average interest rate on mortgages bought at the end of 2014 will be up to 13.5 percent, and could rise to 14.5 percent next year, according the Agency for Housing Mortgage Lending.

Meanwhile, mortgage lenders and real estate developers are making the most of the current window of opportunity.

"We would advise those intending to get to mortgage to hurry," said MITs spokeswoman Novitskaya.

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